



The Living Wage in the United Kingdom

Building on Success

Donald Hirsch, Head of Income Studies, Centre for Research in Social Policy, Loughborough University

Rhys Moore, Director, Living Wage Foundation

“A living wage is that which is sufficient to enable those who receive it and those dependent on them to lead vigorous, full human lives.”

- A Living Wage. A National Necessity. How Best to Get it

C.C. Cotterill, 1912

Contents

	Page
1. Summary	3
2. The Living Wage in the United Kingdom	4
3. A Consistent Approach to Living Wages	7
4. Methodology for calculating the Living Wage outside London	8
5. The Living Wage Foundation	13

1. Summary

The aim of this paper is to outline a coherent and credible approach to calculating Living Wages in the United Kingdom. It is the result of close collaboration and consultation with Living Wage employers and campaigners from across the UK.

On May 2 2011 Citizens UK launched the Living Wage Foundation. This national body is a response to the growing interest in the Living Wage in other cities across the UK. The Foundation will oversee the accreditation of Living Wage Employers. It is supported by six Principal Partners: **KPMG; Linklaters; Save the Children; Trust for London; Queen Mary, University of London; and the Resolution Foundation.**

One of the first actions of the Living Wage Foundation has been to propose a methodology for calculating the Living Wage outside London. A roundtable was held on 2 March 2011 to consider a draft paper produced by Donald Hirsch, Centre for Research in Social Policy, and Rhys Moore, Citizens UK. This paper is an updated version which reflects the consensus reached at that meeting.

The National Living Wage (outside London) for 2011 is £7.20 per hour, as calculated by the Centre for Research in Social Policy. The London Living Wage rate for 2011 is £8.30 per hour, as calculated by the Greater London Authority.

2. The Living Wage in the United Kingdom

History

The principle underlying the Living Wage is simple and powerful: that work should bring dignity and should pay enough to provide families the essentials of life. The concept has deep historical roots. In 1894, Mark Oldroyd, Liberal MP for Dewsbury wrote, "A living wage must be sufficient to maintain the worker in the highest state of industrial efficiency, with decent surroundings and sufficient leisure." During this period, social reformers sought to bring rigour and clarity to the concept. The leading figure in this work was Benjamin Seebohm Rowntree, who developed a methodology for calculating the living wage, or what he called the human costs of labour.

Having disappeared from the political landscape for most of the twentieth century, the demand for a Living Wage resurfaced in 2001 in a campaign led by London Citizens. In 2000 London Citizens held a listening campaign to discover the pressures on family and community life in the East End. After speaking to thousands of people, community leaders gathered for a day retreat in Limehouse. The common pressure was that parents had less time to spend with their children and with their communities. Why? Because both parents were working sometimes two or three jobs to make ends meet. Why? Because the minimum wage is not enough to live on.

In Walthamstow Assembly Hall in 2001, over 1,000 leaders from London Citizens launched the Living Wage Campaign, calling on employers to recognise their responsibility to end poverty pay.

Success in London

In the ten years since its launch, the Living Wage campaign has become a powerful force for change in London. Initially dismissed as impossible, it is now recognised as a compelling cause which offers benefits to workers, employers and to wider society.

Professor Jane Wills of Queen Mary, University of London estimates that over 10,000 families have been lifted out of working poverty as a direct result of the campaign. This means a transfer of over £70 million to some of the poorest workers in London.

In total, over 140 employers from every sector have adopted the Living Wage. There is now prominent support for the Living Wage from businesses including KPMG, Barclays and Linklaters.

In the public sector, eleven local authorities are committed to paying the Living Wage, four hospitals, one central government department, fourteen Universities, all members of the Greater London Authority family, and we have the world's first Living Wage Olympics. International charities including UNICEF and Save the Children have recently lent their support to the campaign.

The Living Wage enjoys support and recognition across the political spectrum - the Mayor of London is a vocal champion, as is the leader of the Labour Party. David Cameron has called the Living Wage, "An idea whose time has come."

For a detailed chronology of the London Living Wage campaign please visit:

<http://www.geog.qmul.ac.uk/livingwage/chronology.html>

Calculating the Living Wage for London

The Living Wage for London has been based on a formula in which the main living cost element is derived from figures from the Family Budget Unit (FBU), with adjustments relevant to London. The FBU calculations, made in the 1990s and most recently in 1998, are based on lists of essential items in the budget of different types of family. These were drawn up by experts, based on a variety of evidence including scientific evidence on physical needs and current norms such as the percentage of people in the population who presently own a particular item.

A turning point in the campaign came in 2004 when London Citizens held a Mayoral Accountability Assembly. Each of the candidates committed to be a champion for the Living Wage. The successful candidate, Ken Livingstone, followed through on his pledge by

establishing a Living Wage Unit at the Greater London Authority which has calculated the hourly rate annually since 2005.

Since his election in 2008, Boris Johnson has continued to act as a champion for the Living Wage, and has brought about full implementation across the Greater London Authority family, lifting 2,000 workers out of poverty.

Living Wage Campaigns in the UK

Living Wage campaigns are springing up all over the United Kingdom. The success of the London Living Wage campaign has encouraged campaigners and employers across the country to look at what it would mean to pay enough for individuals and families to support themselves at a minimum acceptable level.

At present there are active campaigns in Scotland, Wales, Oxford, Norwich, Preston, Milton Keynes, Leeds and Brighton.

3. A Consistent Approach to Living Wages

The spread of the Living Wage campaigns to every corner of the UK presents an opportunity to lift thousands more families out of working poverty. It also presents an opportunity to ensure a consistent approach to the calculation of Living Wages. Such consistency is important in ensuring the credibility of the Living Wage concept.

In the United States, the Living Wage campaign has developed in the absence of a common framework for the calculation of hourly rates. Evidence suggests that this has had a negative impact on the campaign, which is more readily undermined as a result of this fragmentation.¹

Where Are We Now?

In London, the Greater London Authority's methodology is well established, and has gained recognition from both campaigners and employers.

Outside London, no single approach has been adopted to calculate Living Wages. However, a number of campaigns – most notably the Scottish Living Wage campaign – have drawn on the work of Centre for Research in Social Policy (CRSP) at Loughborough University.

Since 2008, the Joseph Rowntree Foundation has published a Minimum Income Standard (MIS), based on CRSP's detailed research into what items families need to be able to afford in order to achieve a socially acceptable standard of living. This has brought together the most widely recognised methods for calculating minimum family budgets, to produce figures decided by the general public and informed by expert knowledge.

The MIS approach shares many features with the London Living Wage methodology, and indeed is the successor to the Family Budget Unit, which devised the original approach. The method outlined below uses the MIS approach as its base, but incorporates many aspects of the LLW approach in order to make them similar as measures.

¹ See Stephanie Luce, "The Role of Community Involvement in Implementing Living Wage Ordinances", *Industrial Relations*, Vol. 44, No. 1 (January 2005).

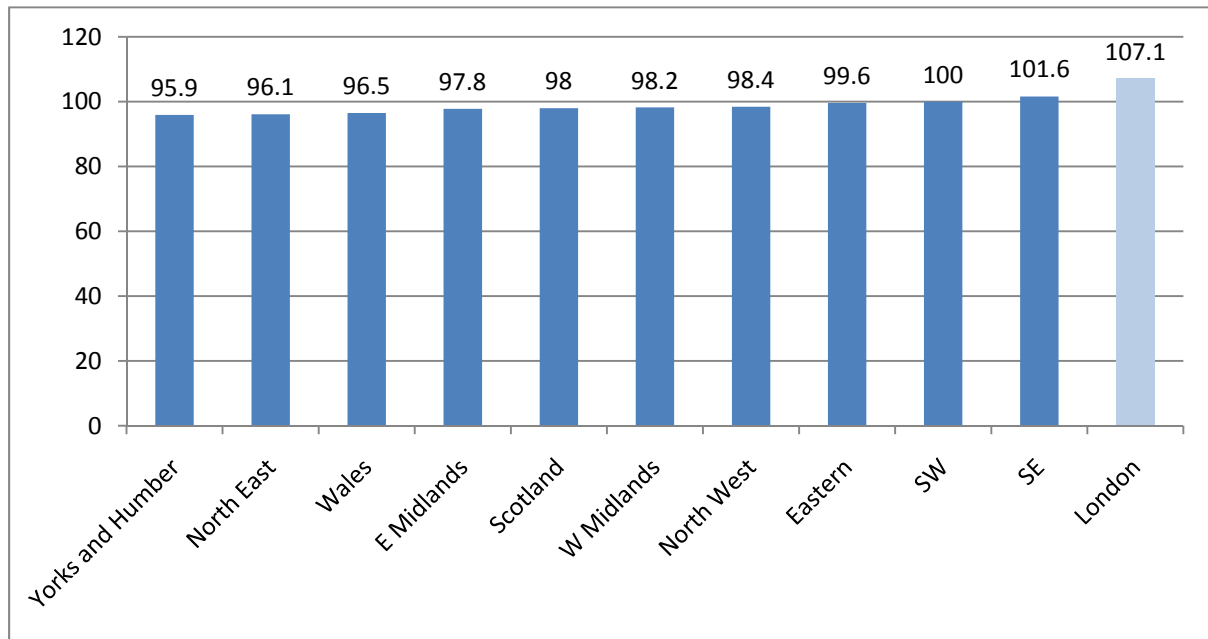
4. Methodology for calculating the Living Wage outside London

Fuller details and sources for the following calculation can be found in an accompanying technical paper.² The methodology has been constructed at the Centre for Research in Social Policy at Loughborough University, by the team that produces the Minimum Income Standard.

- i) For each of nine household types, the Minimum Income Standard is used to represent the basket of goods and services that a family needs to buy in order to reach a minimum acceptable standard of living. The household types are singles and couples without children, couples with 1 to 4 children and lone parents with 1 to 3 children. The costs of items in these MIS calculations are mainly based on things you can buy in chain stores with national pricing policies. The MIS costs used here exclude housing costs, which are the most variable costs from one part of the country to another, as well as council tax and childcare. The basket therefore comprises items where regional price differences are relatively small: as shown in Figure 1, the average overall cost of a basket of goods and services, excluding housing, varies within a relatively narrow range for regions outside London.

² http://www.minimumincomestandard.org/downloads/working_papers/living_wage_detail_and_rationale.pdf

Fig 1 Cost of an average basket of goods and services, after housing costs, by region (UK=100)



- ii) For each of these household types, costs are added on for childcare, rent and council tax, based on calculations from across the UK outside London. This takes into account that these costs can vary considerably across areas, and uses the London Living Wage approach of using averages to get a best approximation of what costs people actually face. For rent, the minimum cost is assumed to be a council property for a family with children, and a cheaper private tenancy for those without children (who are very unlikely to get allocated a council dwelling in many areas). In each area, the mean council rent and the 25th percentile private rent is used as the benchmark, and these figures are averaged for all areas. Council tax is taken as the average for the relevant band across all local authorities outside London, and childcare is based on the average of regional prices, outside London, based on survey data.
- iii) For each of the nine family types, the required wage for meeting these living costs is calculated. This assumes that the adult(s) in the household work full time and that people claim all the benefits and tax credits that they are entitled to.

- iv) The resulting wage requirements for the nine household types are averaged, weighted according to the prevalence of different household types in the population, to produce a single Living Wage, rounded to the nearest 5p.

Steps (i) to (iv) produce an outside London Living Wage of **£7.20 an hour** for 2011.

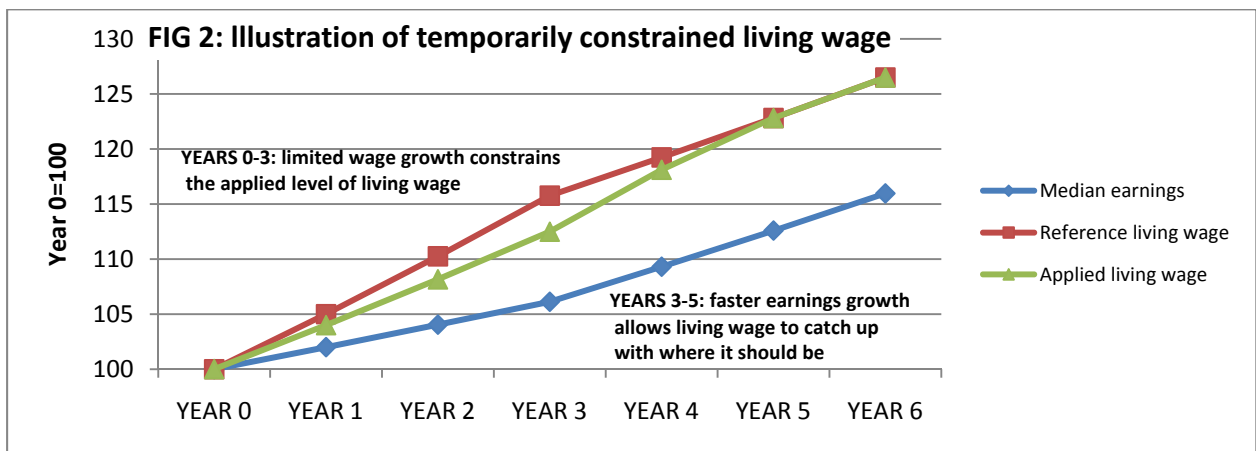
When uprating this figure, a final step will be used to ensure that, as is the case with the London Living Wage, the amount that the Living Wage can change each year relative to the movement of average incomes and general wages is constrained:

(v) If the total living cost calculation at steps (i) and (ii) produces an increase in living costs that is substantially higher than the estimated rise in average income, the annual rise is proportionately reduced. Similarly, if the calculated rise in the living wage calculated in step (iv) exceeds the increase in median earnings by more than a given amount, the annual wage rise is reduced too. The formula used will limit the rate of any increase to a maximum of two percentage points above the rise in average income/median earnings. This formula will be reviewed periodically. Note that where such limits are applied, the constrained level of the living wage will not be the baseline for future increases, since each year's "reference" living wage level will be calculated afresh based on actual living costs. This would allow for "catching up" periods for as long as the reference rate remained above the applied rate (see box).

BOX: Avoiding high annual increases in a wage still linked to living costs

If we have a period where the wages needed to support a minimum standard of living rise much faster than wages generally, it may be unrealistic to ask employers to foot the full cost of a living wage immediately. But if this is followed by a period where the living wage requirement rises by close to or below the general rate of wage growth, there will be an opportunity to catch up. The crucial point here is always to calculate a reference living wage based on actual living costs, rather than reduce our ambitions of what level the LW should be at. Figure 2 illustrates this. Imagine that for a period of three years, median earnings go up by 2% a year, but the requirement for meeting rising living costs in full is a 5% rise in the Living Wage. This would be limited to a 4% rise, two percentage points above earnings

growth. But if in the subsequent three years, earnings growth picked up to 3% and growth in the living wage requirement reduced to the same rate, 3%, this would allow the LW to catch up with where it should be. The applied living wage would be the maximum of 5% a year until it was realigned with where it should be, which would occur by Year 5. After this, its actual growth rate of 3% would be restored.



The above steps for calculating the living wage outside London use much of the London methodology, while drawing on new information from the MIS. This calculation copies adopts the LLW practice of combining a general shopping basket with some averaging of locally variable costs into a single living costs estimate.

Geographical Variation

At the same time, for people living in different parts of the country, actual wage requirements will vary due in particular to different housing costs. While the single national rate uses an average of such costs, the same data used to calculate these averages can potentially be applied to create local rates. However, for local versions of the Living Wage to be considered valid, two conditions need to apply. One is that the method used is fully compatible with the national method, and does not, for example, involve arbitrarily

selecting additional factors to take into consideration that are not being included elsewhere. The other condition is that a local version represents a common approach being adopted in a local area, rather than competing with other versions, including the national living wage, being adopted by different bodies in one locality. For both these purposes, a multi-stakeholder board will consider the validity of a local living wage before accreditation is given (see Living Wage Foundation, below). On request, the group will work with the Centre for Research in Social Policy to calculate or validate a local living wage, and will take account of the degree of consensus in a local area that this should replace the national version for that locality.

These calculations provide a solid basis for producing Living Wage rates outside London, which are consistent with and share a common framework with the LLW calculation. Our ambition over time is for these methodologies to become fully aligned.

5. The Living Wage Foundation

To mark the 10 year anniversary of the Living Wage campaign, Citizens UK is launching the Living Wage Foundation. This national body will support the growth and development of the Living Wage across the UK, providing strength and coherence to the concept as well as momentum to the campaign. The Foundation was launched on 2 May 2011 at a Citizens UK Assembly of 2,500 campaigners, employers and politicians from across the UK.

The Foundation's leadership and governance model has been developed following consultation with Stonewall, the Fairtrade Foundation, Business in the Community, and the Employers' Forum on Age. The Living Wage Foundation will be established as a division of Citizens UK (Reg. charity no. 1107264). All governance and fiduciary duties will sit with the Board of Citizens UK.

The Living Wage Foundation will do three things:

- **Intelligence.** Provide advice and support to employers implementing the Living Wage - best practice guides; case studies from leading employers; model procurement frameworks; access to specialist legal and HR advice.
- **Accreditation.** The 'Living Wage Employer' mark will become a recognised sign of good practice in employment. A multi-stakeholder board will oversee policy, including approaches to Living Wage calculations.
- **Influence.** The Foundation will work with Principal Partner organisations from a range of sectors. Partners will provide financial and strategic support to the Foundation. At launch Partners include: KPMG, Linklaters, Save the Children, Trust for London, Queen Mary University of London, and the Resolution Foundation.

In London, the Living Wage is now a part of the economic landscape. Employers know about it, and many now pay it; workers know about it, and many are still fighting for it; politicians know about it, and compete with one another to champion it; policy makers and NGOs know about it, and offer their support. But there is still work to be done. We have only just begun to break ground in sectors where poverty pay is the norm such as retail and hospitality. The Living Wage is not a household name in the way that Fairtrade has become.

In cities and towns across the UK we are at the beginning, a moment of great opportunity where interest is growing everyday. Our aim is for the Living Wage mark to become a sign that people understand, and eventually seek out. On supermarket doors, on hotel brochures, on coffee cups, and on the great offices of State, in London and across the UK. The Living Wage Foundation is the vehicle and a Living Wage for all is the vision.

For more information please contact:

Rhys Moore

Director, Living Wage Foundation

Email: rhys.moore@citizensuk.org

Phone: 020 7043 9881